

No. 20230

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

SOLENOID DEVICES, INC.,

Appellant,

vs.

LEDEX, INC.,

Appellee.

Appeal From the United States District Court for the
Southern District of California, Central Division

APPELLEE'S BRIEF.

MIKETTA, GLENNY, POMS & SMITH,
GUY PORTER SMITH,

210 West Seventh Street,
Los Angeles, Calif. 90014,

Attorneys for Appellee.

Of Counsel:

DYBVIG & DYBVIG,
H. TALMAN DYBVIG,

2600 Far Hills Avenue,
Dayton, Ohio 45419,

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APPELLEE'S BRIEF.

A. JURISDICTIONAL STATEMENT.

The order appealed [R. 13-15] results from a challenge to the validity of Letters Patent of the United States granted under an act of Congress (Title 35 U.S.C.): The appeal thus involves subject matter over which the district courts have original jurisdiction (28 U.S.C. 1338).

The Complaint [R. 2-6] generating this appeal was in the form of a request for a declaration of rights under 28 U.S.C. 2201 and, accordingly, was an action over which the District Court, at its discretion, may or may not have accepted the jurisdiction conferred under 28 U.S.C. 1338 (*Public Affairs Associates, Inc. v. Rickover*, 369 U.S. 111).

The District Court on its own initiative and in an exercise of judicial discretion declined to accept jurisdiction of the declaratory judgment request, ordering dismissal of the action [R. 13-15]. Such dismissal being a final decision of a district court of the 9th Circuit, jurisdiction of this Court of Appeals is established by 28 U.S.C. 1291 and 1294.

B. STATEMENT OF THE CASE.

As will be explained more fully in the Argument which follows, the Complaint [R. 2-6], the dismissal of which is now appealed, alleges a patent controversy of a "technical" nature. According to the complaint, there is a patent owned by appellee, appellant is a manufacturer of products which it sells, appellee has asserted that a product manufactured by appellant infringes its patent and has proposed a license agreement, appellant has advised appellee that the patent is invalid for sundry reasons recited in the Complaint, and appellee nevertheless continues to assert the validity of the patent.

The Complaint prays [R. 6] for a declaratory judgment decreeing that the patent is invalid. The District Court, exercising its discretion implicit in the word "may" (28 U.S.C. 2201), declined jurisdiction over the controversy alleged and ordered dismissal of the action [R. 13-15].

The Complainant thereafter moved [R. 16-17] for reconsideration and amendment of the dismissal order, supporting its Motion with an affidavit [R. 28-30] having annexed exhibits [R. 31-41].

A hearing on the Motion for reconsideration was granted and after such hearing a Memorandum [R.

43-47] was issued by the Court denying the Motion for reconsideration. In such Memorandum the Court denied a request, by appellant, for leave to amend the Complaint.

Appellant thereafter filed a Notice of Appeal to this court [R. 48], appealing from the Order Dismissing Action [R. 13-15] and from the court's decision and order [R. 43-47] denying appellant's Motion [R. 16-17] to reconsider and amend said Order Dismissing Action.

C. THE CENTRAL ISSUE INVOLVED IN THIS APPEAL.

The preceding Jurisdictional Statement, while considered entirely accurate, states as a fact a matter placed in issue by the Appellant. Stated succinctly, the appellant's position is that the district courts have no discretion to accept or reject jurisdiction under 28 U.S.C. 2201, when the controversy sought to be adjudicated is a patent controversy not otherwise before the courts.

In contrast to appellant's contention, it is the contention of Appellee, and of the Honorable Court whose decision is appealed, that the courts have discretion to accept or reject jurisdiction over all actual or justiciable controversies sought to be adjudicated under 28 U.S.C. 2201, whether or not the controversy involves a patent.

The central issue presented by these divergent contentions is whether or not a patent controversy is, in and of itself, of such unquestionable immediacy and reality that the public interest compels an immediate declaration of rights with such force that the district courts are, as a matter of law, without discretion in the matter.

D. FURTHER ISSUES PRESENTED.

Should this court determine that the District Court does have discretion to accept or reject jurisdiction over actual controversies involving patents, a secondary issue presented by this appeal is whether or not the District Court properly exercised its discretion under the facts pleaded.

Should this court find an abuse of discretion, it still must be established that an actual controversy did exist such that jurisdiction could have been accepted in any event. This issue concerning the existence of an actual controversy is properly avoided if this Court should find a proper exercise of discretion by the District Court. *See A. L. Mechling Barge Lines, Inc. v. United States*, 368 U.S. 324, 331, 82 S. Ct. 337, 342 (1961).

Should this Court find that the District Court's discretion was not properly exercised, and that an actual controversy was pleaded, remand is in order. However, should this Court find a proper exercise of discretion by the District Court, a tertiary question remains to be considered. This tertiary question, raised by appellant, is whether or not the District Court erred in refusing a request by appellant for leave to amend its complaint so as to state a controversy "more to the District Court's liking" (Appellant's brief, part C. p. 5).

E. ARGUMENT.

1. The District Court's Discretion to Refuse to Entertain Declaratory Relief Actions Has Not Been Abolished in Patent Cases.

There can be no responsible dispute concerning the District Court's discretionary authority to decline or accept jurisdiction in actions seeking declaratory adjudication under 28 U.S.C. 2201. This is recognized by the Supreme Court in *Public Affairs Associates, Inc. v. Rickover*, 369 U.S. 111, 82 S. Ct. 580 (1962).

“The Declaratory Judgment Act was an authorization, not a command. It gave the federal courts competence to make a declaration of rights; it did not impose a duty to do so.” (369 U.S. 111, 112).

In the present appeal, appellant seeks to exclude patent controversies from this well established discretionary authority. Thus, appellant comments as follows in its brief:

- (a) P. 5, part C—“The basic question is whether the complaint avers a justiciable controversy under the Federal Declaratory Judgments Act (28 U.S.C. 2201-2202) over which the District Court *must* accept jurisdiction.” (Emphasis added.)
- (b) P. 10, part B—“Discretion should not be exercised to refuse to entertain a Declaratory Judgment Action where there is an ‘Actual Controversy’ between a Patentee and a prospective Defendant respecting the validity, or infringement by the prospective Defendant, of a Patent.”

On its face, 28 U.S.C. 2201 does not purport to exclude patent controversies. Thus 28 U.S.C. 2201 reads as follows:

“In a case of actual controversy within its jurisdiction, except with respect to Federal taxes, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.”

While appellant's brief cites many decisions wherein jurisdiction has been accepted for a declaration of rights in a patent controversy, not one of the cited cases suggests, when directly confronted with this issue, that, merely because the controversy is a patent controversy, discretionary authority as to an acceptance of jurisdiction is destroyed.

To the contrary, at least the Second Circuit Court of Appeals has recognized the discretionary authority vested in the District Courts as to declaratory adjudication of patent controversies. See *Dr. Beck & Co. G.M.B.H. v. General Electric Co.*, 317 F. 2d 538 (C.A. 2, 1963).

In that case, a district court of the Third Circuit had dismissed a complaint seeking declaratory adjudication of a patent controversy on the basis that no actual controversy existed. On appeal by the complainant, the Court of Appeals affirmed the dismissal, but,

seeming uncertain as to the absence of an actual controversy, supplemented its decision as follows:

“Moreover, even in actions which technically fall within the jurisdictional requirements of sec. 2201, a court in its discretion may decline to exercise jurisdiction.” (317 F. 2d 538, 539).

This is a clear recognition that even had there been an actual controversy in Dr. Beck’s complaint, the District Court still had discretion to accept or reject jurisdiction over the patent controversy.

It is submitted, therefore, that appellant’s contentions regarding the District Court’s lack of discretionary authority as to patent controversies are unsupported by the law and are, in fact, contrary to the law.

Accepting that the District Court did have discretionary authority in the present action, it remains to be considered whether the District Court reasonably exercised its discretion.

2. Appellant’s Controversy Is Devoid of the Reality and Immediacy Required to Give It Substance Beyond a Mere Technical Controversy.

In the preceding statement of the case the present controversy was characterized as one of a technical nature. The term “technical” is here used to describe a controversy which does contain elements recognized as essential to establish the actual controversy required in 28 U.S.C. 2201, but which contains nothing more of substance.

Obviously a patent controversy cannot exist without an existing patent and a party plausibly chargeable with infringement of the patent. Where these essential elements exist, a patent owner may trigger an actual controversy satisfying the prerequisite of 28 U.S.C. 2201 by signifying that the activities of the party plausibly chargeable with infringement are deemed to be an infringement. The controversy is then joined by the mere filing of the declaratory judgment complaint.

These three elements: a patent, a plausible infringer and a charge of infringement are basic and essential requirements in all patent controversies over which jurisdiction can be accepted under 28 U.S.C. 2201. Until these three elements are all present the court is without jurisdiction and consequently without discretion to accept or decline jurisdiction.

Assuming these three essential elements to be present in the present action, the next question under consideration is: What is the nature of the Court's discretionary authority? The following partial answer to this question can be found in *Maryland Casualty Co. v. Pacific Coal and Oil Co., et al.*, 312 U.S. 270, 61 S. Ct. 510 (1941).

“Basically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.” (312 U.S. 270, 273).

To the prerequisites of “immediacy” and “reality” established in the above decision must be added a further prerequisite, namely, that it be in the “public interest” to render the declaration sought, this being recognized in *Great Lakes Dredge and Dock Co. v. Huffman*, 319 U.S. 293, 63 S. Ct. 1070 (1943).

It is self-evident that, if the three essential elements to a patent controversy identified above, without more, automatically provide the prerequisites of “immediacy”, “reality” and “public interest,” the district courts are without discretion under 28 U.S.C. 2201 to accept or reject actual patent controversies. In effect, then, has the case law subsequent to enactment of 28 U.S.C. 2201 (the *Beck* case excepted), rewritten that law as applied to patent controversies? It is submitted that this result is not intended either by the Congress which enacted 28 U.S.C. 2201 or by the courts.

Rather, it is submitted that the words “immediacy”, “reality” and “public interest” all have an important bearing on the court’s discretionary authority. Thus, all controversies sought to be adjudicated under 28 U.S.C. 2201 must have an “immediacy” in the sense that immediate relief appears necessary. They must have a “reality” in the sense that both the controversy and the need for immediate relief are not more imagined than real. Even when the tests of “reality” and “immediacy” are favorably met, it remains to be considered whether or not it will be in the “public interest” to adjudicate the controversy by way of the special remedy afforded by the Declaratory Judgment Act.

3. **An Abuse of Discretion by the District Court Is Not Evident From the Record and Has Not Been Shown by Appellant.**

A review of Judge Byrne's Order of Dismissal and subsequent Memorandum denying reconsideration shows that his Honor gave careful consideration to these questions of immediacy and reality and to the public interest. Thus, the court after a review of the pleadings and, later, the surrounding circumstances revealed by the appellant's exhibits, could find only a negotiation for the purchase of appellant's business assets in which the issue of patent infringement appeared to arise solely as a bargaining tool. This, the court correctly labeled a "casual business disagreement" [R. 47].

The court also noted that the controversy lacked the traditional indicia of patent disputes readily recognizable as "real" and "immediate". Thus, there was no threat conveyed to appellant's customers. Had there been such threat, appellant's sales might naturally have suffered and its business been jeopardized as a result. No such threat can be discerned in the record, however.

The court also noted that no clear threat of legal action by appellee, either now or in the future, appeared in the record. Thus, while appellee had directed attention to a particular patent, the circumstances did not appear to Judge Byrne to reveal any threat of immediate legal action and, possibly, not even a threat of future action.

In view of the circumstances of the present action Judge Byrne appears to have been entirely reasonable in concluding, as a matter of discretion, that the controversy presented to him was not of such immediacy and reality that the public interest required a declaratory adjudication.

Appellant's brief refers frequently to a "cloud" placed over its business and a diminished business value as a result of the controversy. However, appellant has failed to show any "cloud" or diminished value or other circumstance that does not flow naturally from the mere existence of a patent and a claim of infringement. The types of "injury" to which the appellant refers are inherently present in all patent controversies adjudicable under the 28 U.S.C. 2201. Since these factors are inevitably present, the courts discretionary authority must look beyond these factors, giving particular attention to circumstances which show that the controversy has extended beyond the technical or minimum elements necessary for declaratory adjudication.

In the present case there is a patent, a plausible infringer and a claim of infringement. This claim was answered in routine fashion by a denial of patent validity. With this denial only a technical controversy was joined. The complaint recites nothing further of substance.

It is submitted therefore that the record in its entirety and even the arguments presented in appellant's brief fail utterly to disclose any circumstances which

takes this action beyond the technical prerequisites for a controversy and contain nothing to show that Judge Byrne either lacked discretionary authority or, in the alternative, abused such authority.

4. **The Present Action Arises From a Casual Business Disagreement and Falls Short of Being an "Actual" Controversy as Required in 28 U.S.C. 2201.**

The District Court's dismissal order reads as follows:

"It is ordered upon the court's own initiative that this action is hereby dismissed, 'but solely on the ground that, in the appropriate exercise of the court's discretion, relief by way of a declaratory judgment should (be) denied without consideration of the merits.'" [R. 14].

From the above language it may appear that no serious question as to the existence of an actual controversy exists in the present case. Thus the court's assertion of a discretionary power to decline jurisdiction implies a power to accept jurisdiction, which can exist only when an actual controversy exists.

However, a more careful reading of the dismissal order reveals a substantial doubt as to the existence of an "actual" controversy. In conclusions (5) and (6) of the dismissal order [R. 14] his Honor Judge Byrne observed that a dispute involving only patent validity did not allege a "controversy" such as contemplated by the Declaratory Judgments Act, but was rather an assertion of a mere abstract or hypothetical question.

After the hearing on the motion for reconsideration, wherein exhibits submitted by the appellant could be reviewed, Judge Byrne stated more positively that "this court is of the opinion that plaintiff alleges only a casual business disagreement between the parties, arising during the course of negotiations between the parties for the purchase by defendant of the assets of the plaintiff."

From the foregoing, it appears that Judge Byrne found, in the complaint and in the exhibits later submitted, a disagreement as to the validity of the patent which arose during negotiations for the sale of business assets, negotiations wherein the issue of validity had substance only in so far as it affected the value of the business assets involved. Judge Byrne thus concluded in his Memorandum [R. 47] that "This is not a 'definite and concrete' controversy 'touching the legal relations of parties having adverse legal interests' such as referred to by the Supreme Court in *Aetna*, supra." (Reference to *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 57 S. Ct. 461 (1937).)

From this conclusion, it appears that, although the complaint seeks to allege a controversy between a patent owner and a manufacturer accused of infringement, Judge Byrne has looked beyond this technical issue to find a business negotiation which is not an adversary dispute of the type referred to in the *Aetna* decision.

This finding is entirely reasonable under the circumstances of this action as revealed by the complaint and the affidavit and exhibits later submitted by appellant.

5. **Appellant Could Not Merely Amend Its Pleadings to Infuse the Controversy With the Lacking Reality and Immediacy.**

The only question remaining in this appeal is whether Judge Byrne might have erred in denying appellant's request for leave to amend its complaint to recite a controversy "more to the court's liking" (Appellant's brief, Part C, p. 5). As to this matter, appellant must be presumed to have urged all facts available to it in its complaint and in support of its motion for reconsideration. Should this not be the case, appellant is indulging in piece-meal prosecution, a practice which no court should condone. Taking the only logical position, namely, that appellant did acquaint the court with all facts and circumstances in support of its complaint at least by the end of the oral hearing on the motion for reconsideration, Judge Byrne was clearly of the opinion that no amendment within the framework of the arguments presented would provide a controversy over which he would, in his authorized discretion, accept jurisdiction.

The very act of raising this issue or appeal suggests a lack of discipline in the existing legal system. Thus the issue implies that the courts may not be capable of penetrating the verbal embellishment of a pleading to reach the substance thereof and that, in this case, an adjustment in the wording of the complaint might reveal a new substance to the controversy that the court could not discern in the pleading, exhibits and arguments before it. At best, appellant's request was only an invitation to further debate a matter already fully debated.

It is submitted that the District Court was, in view of the circumstances and the nature of the request, free of error in denying the request for leave to amend.

Summary.

It is submitted that this Court should affirm the District Court's dismissal of the Complaint because:

1. The District Court is not forced to accept jurisdiction over all actions allegedly brought under 28 U.S.C. 2201.

2. If, after examining a Complaint, the District Court finds that the Complaint does not present a real and immediate controversy justifying resort to an immediate declaration of rights (as contemplated by 28 U.S.C. 2201) the District Court may dismiss the action at its discretion.

3. The order dismissing the Complaint and the District Court's Memorandum show that the Court below carefully considered the Complaint and found that it did not present an actual controversy of the reality and immediacy contemplated by 28 U.S.C. 2201.

4. The District Court did not abuse its discretion in dismissing the Complaint.

MIKETTA, GLENNY, POMS &
SMITH,

GUY PORTER SMITH,

Attorneys for Appellee.

Of Counsel:

DYBVIG & DYBVIG,

H. TALMAN DYBVIG.

Certificate.

I certify that, in connection with the preparation of this brief. I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

GUY PORTER SMITH

